



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
INMATE WELFARE FUND
YEARS ENDED JUNE 30, 1977 & 1978

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

131

FINANCIAL AUDIT REPORT
DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND
FISCAL YEARS ENDED JUNE 30, 1977 and 1978

FEBRUARY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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Office of the Auditor General

February 4, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Inmate Welfare Fund of the Department of Corrections, years ended June 30, 1977 and June 30, 1978.

The auditors are Richard LaRock, CPA, Audit Manager; Robert Hamric, CPA; Merrill Tompkins, CPA; George Fracchia; Fredrick Lewis; Earl Hickman; Daniel Sherwood; Thomas Dovi; Freda Luan; James Rostron; Michael Edmonds; and Douglas Cordiner.

Respectfully submitted,

S. FLOYD MORI
Assemblyman, 15th District
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Inmate Welfare Fund of the Department of Corrections. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Department of Corrections operates 12 major correctional centers for the control, care, and treatment of men and women who have been either convicted of serious crimes or admitted to the civil narcotics program.

Section 5006 of the Penal Code establishes the Inmate Welfare Fund in the State Treasury. The code provides that these monies shall be used for the benefit, education, and welfare of inmates of prisons and institutions under the jurisdiction of the Department of Corrections. Also, the code further provides that monies in the fund be used in support of both canteens and hobby shops at prisons and institutions under the jurisdiction of the Department of Corrections.

We will issue a separate audit report on the General Fund, Special Deposit Fund, Trust Fund, and General Fixed Assets Account Group of the Department of Corrections for the year ended June 30, 1978.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

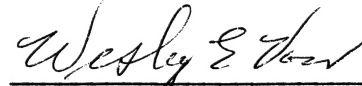
We have examined the balance sheet of the Inmate Welfare Fund of the Department of Corrections as of June 30, 1977 and 1978 and the related statements of operations and changes in fund balance for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 2 of the Notes to the Financial Statements, the Department of Corrections accounts for and reports the financial position, results of operations, and changes in fund balance of the Inmate Welfare Fund to comply with legal requirements of the Penal Code and with the Budget Act without provisions to also report in accordance with generally accepted accounting principles. Business type assets and activities are combined with assets which the department holds as a trustee for inmates. No depreciation was charged for equipment used in business type activities. An undetermined amount of costs related to business type activities was paid from legislative appropriations for support of the Department of Corrections and are omitted from the accompanying financial statements.

In our opinion, because of the effects of the accounting practices discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Inmate Welfare Fund of the Department of Corrections at June 30, 1977 and 1978 or the results of operations and changes in fund balance for the years then ended.

The accompanying supplemental information is not necessary for a fair presentation of the financial statements, but is presented for additional analytical data. The supplemental information has been subjected to the tests and other auditing

procedures applied in the examination of the financial statements but, in our opinion, is not presented fairly in accordance with generally accepted accounting principles because of the effects of the accounting practices discussed in the preceding paragraphs.



WESLEY E. VOSS

Assistant Auditor General

Date: June 25, 1979

Staff: Richard LaRock, CPA
Robert Hamric, CPA
Merrill Tompkins, CPA
George Fracchia
Fredrick Lewis
Earl Hickman

Daniel Sherwood
Thomas Dovi
Freda Luan
James Rostron
Michael Edmonds
Douglas Cordiner

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND

COMPARATIVE BALANCE SHEET

JUNE 30, 1978 AND 1977

| | <u>1978</u> | <u>1977</u> |
|--------------------------------------|--------------------|--------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 517,761 | \$ 630,015 |
| Accounts receivable | 119,834 | 141,112 |
| Canteen merchandise for resale | 417,118 | 459,492 |
| Investment in securities (Note 3) | 1,416,396 | 1,530,328 |
| Equipment (Note 4) | <u>751,876</u> | <u>737,554</u> |
| Total Assets | <u>\$3,222,985</u> | <u>\$3,498,501</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 647,921 | \$ 641,011 |
| Due to Trust Fund (Note 3) | 889,929 | 1,063,929 |
| Unredeemed canteen cards | 97,006 | 116,018 |
| Uncleared collections | <u>54</u> | <u>31</u> |
| Total Liabilities | <u>1,634,910</u> | <u>1,820,989</u> |
| Fund Equity: | | |
| Investments in fixed assets (Note 4) | 751,876 | 737,554 |
| Undesignated | <u>836,199</u> | <u>939,958</u> |
| Total Fund Equity | <u>1,588,075</u> | <u>1,677,512</u> |
| Total Liabilities and Fund Equity | <u>\$3,222,985</u> | <u>\$3,498,501</u> |

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND

COMPARATIVE STATEMENT OF OPERATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 1978

| | <u>1978</u> | <u>1977</u> |
|--|---------------------|------------------|
| Operations: | | |
| Canteen Sales | \$5,192,834 | \$5,247,631 |
| Less: Cost of sales | <u>4,298,092</u> | <u>4,312,833</u> |
| Gross Profit on Canteen Sales | <u>894,742</u> | <u>934,798</u> |
| Canteen Operating Expenses: | | |
| Personal services | 641,016 | 587,388 |
| Other operating expenses | 76,165 | 98,702 |
| Adjustment to canteen merchandise | 35,647 | 28,079 |
| Inmate pay | <u>31,214</u> | <u>27,706</u> |
| Total Canteen Operating Expenses | 784,042 | 741,875 |
| Income from Canteen Operations | <u>110,700</u> | <u>192,923</u> |
| Other Income (Loss): | | |
| Handicraft operations | (20,217) | (10,314) |
| Photo project operations | 68,518 | 63,761 |
| Banquet operations | 768 | (4,128) |
| Interest on trust investments (Note 3) | 98,900 | 110,853 |
| Inmate services to others | 13,523 | 15,311 |
| Miscellaneous | <u>79,776</u> | <u>85,465</u> |
| Total Other Income | <u>241,268</u> | <u>260,948</u> |
| Other Expenses: | | |
| Administration expenses | 235,898 | 188,449 |
| Prior-year expenditures (income) adjustments | <u>2,336</u> | <u>18,798</u> |
| Total Other Expenses | <u>238,234</u> | <u>207,247</u> |
| Income (Loss) from Operations | <u>113,734</u> | <u>246,624</u> |
| Inmate Benefit Expenses: | | |
| General entertainment | 42,774 | 55,941 |
| Motion pictures | 115,400 | 104,716 |
| Inmate newspapers | 13,408 | 14,525 |
| Libraries | 28,316 | 25,024 |
| Inmate pay | 17,595 | 23,540 |
| Equipment (Note 4) | -- | 10,229 |
| Postage | -- | 3,000 |
| Family visiting | <u>--</u> | <u>1,011</u> |
| Total Inmate Benefit Expenses | <u>217,493</u> | <u>237,986</u> |
| Income over (under) Expenses (Note 5) | <u>\$ (103,759)</u> | <u>\$ 8,638</u> |

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND

COMPARATIVE STATEMENT OF CHANGES
IN FUND BALANCE

FOR THE FISCAL YEARS ENDED JUNE 30, 1977 AND 1978

| | <u>1978</u> | <u>1977</u> |
|--|--------------------|--------------------|
| Fund Balance - July 1 | \$1,677,512 | \$1,629,146 |
| Add: | | |
| Net Increase in Investments in Fixed Assets | 14,322 | 39,728 |
| Income over (under) Expenses (Note 5) | <u>(103,759)</u> | <u>8,638</u> |
| Fund Balance - June 30 | <u>\$1,588,075</u> | <u>\$1,677,512</u> |
| Fund Balance: | | |
| Investments in Fixed Assets (Note 4) | \$ 751,876 | \$ 737,554 |
| Undesignated | <u>836,199</u> | <u>939,958</u> |
| Fund Balance - June 30 | <u>\$1,588,075</u> | <u>\$1,677,512</u> |

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1977 AND 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Inmate Welfare Fund is structured to report compliance with provisions of the Penal Code and the Budget Act. The central office maintains its portion of the fund and reconciles records maintained by the 12 correctional centers of the department with those kept by the State Controller. The central office also prepares financial statements for the fund. The State Controller maintains central accounts for all state funds.

Revenues

Throughout the fiscal year, revenues are accounted for on the accrual basis of accounting. Accordingly, income is recorded in the year earned.

Cost of Sales

The cost of merchandise sold in the canteen is appropriately recorded as an expense in the accounting period in which a sale takes place rather than at the time the merchandise was acquired. The department uses an average costing system to determine cost of sales. Each month an average markup percentage which is based upon the retail selling price of merchandise available for sale, is applied to monthly sales. The result is the markup on canteen merchandise for resale; when this amount is deducted from sales, the cost of sales is derived.

Expenses

Throughout the fiscal year, canteen operating, administrative, and inmate benefit expenses are recorded within the accounting period that goods are received or that services are rendered. At fiscal year end, valid expense commitments are accrued.

Liabilities

Retirement Plan - Regular employees of the Department of Corrections are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency

and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time these benefits are used rather than when they are earned.

2. CONFLICTS WITH GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES

When conflicts exist between generally accepted accounting and legal requirements, a governmental accounting system should make it possible to both: (a) present financial information in conformity with generally accepted accounting principles, and (b) present financial information in compliance with finance-related legal provisions. In addition, governmental accounting systems should be organized and operated on a fund basis which recognizes that different circumstances require the application of different accounting principles. It is convenient if the funds are established so that only one method of accounting is required for each fund. If this practice is not followed, however, transactions should be segregated so that appropriate accounting principles can be applied to the different types of transactions and events.

The following practices differ from generally accepted accounting principles. The accounting for business type assets and operations (canteen and hobby shops) are not separated from the accounting for trust assets and activities. Depreciation is not accounted for equipment used in business type activities. An undetermined amount of the business type activity costs which were paid from legislative appropriations for support of the Department of Corrections are omitted from the fund's accounting records and, hence from the accompanying financial statements.

3. INVESTMENT IN SECURITIES
AND DUE TO TRUST FUND

Section 5008 of the Penal Code provides that the Director of Corrections, may mingle the funds of any inmate with the funds of other inmates, for purposes of deposit or investment only, when this transaction is authorized by the inmate and approved by the Department of Finance.

Section 5008 also states that the director shall deposit the interest or increment accruing on such funds in the Inmate Welfare Fund. Such inmate funds were transferred from the Trust Fund to the Inmate Welfare Fund which invests these monies with Inmate Welfare Fund monies in excess of current operating needs. Interest earned on the investments is deposited in the Inmate Welfare Fund in compliance with Section 5008 of the Penal Code. The account, "Due to Trust Fund," reflects the amount of trust monies that are to be returned to the trust fund upon formal request.

4. EQUIPMENT AND INVESTMENTS
IN FIXED ASSETS

The costs of equipment are charged as operating expenses when purchased. The equipment account contains costs of items acquired for use in both business type operations and trusts for the benefit of inmates.

Equipment used in business type operations should be capitalized and depreciated over its estimated useful life to properly match the revenues generated from its use with the related expense of the equipment.

5. INCOME OVER (UNDER) EXPENSES

This amount represents the net amount of income and expenses for the period but does not represent net income.

SUPPLEMENTAL INFORMATION

The accompanying supplemental schedules present the Inmate Welfare Fund balance sheet and results of operations of the central office and 12 major correctional centers for the periods ended June 30, 1977 and 1978. While not necessary for a fair presentation of the financial statements, the supplemental information is presented to provide additional analytical data.

SCHEDULE 1

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND

BALANCE SHEETS OF THE CENTRAL OFFICE
AND TWELVE MAJOR CORRECTIONAL CENTERS

JUNE 30, 1978

| | Central Office | California Correctional Center at Susanville | Sierra Conservation Center | California Correctional Institution at Tehachapi | Correctional Training Facility | Deuel Vocational Institution | California State Prison at Folsom |
|--------------------------------------|--------------------|---|----------------------------------|---|--------------------------------------|------------------------------------|---|
| <u>ASSETS</u> | | | | | | | |
| Cash | \$ 286,308 | \$18,026 | \$ 37,190 | \$13,612 | \$ -- | \$16,980 | \$ -- |
| Accounts receivable | 7,066 | 2,175 | 8,561 | 2,589 | 35,955 | 2,275 | 8,203 |
| Canteen merchandise for resale | -- | 23,567 | 39,475 | 19,440 | 69,983 | 16,983 | 56,817 |
| Investment in securities | 1,416,396 | -- | -- | -- | -- | -- | -- |
| Equipment | <u>2,168</u> | <u>36,726</u> | <u>77,118</u> | <u>35,197</u> | <u>57,971</u> | <u>36,939</u> | <u>87,268</u> |
| Total Assets | <u>\$1,711,938</u> | <u>\$80,494</u> | <u>\$162,344</u> | <u>\$70,838</u> | <u>\$163,909</u> | <u>\$73,177</u> | <u>\$152,288</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 62,147 | \$27,619 | \$ 33,659 | \$38,692 | \$ 62,282 | \$29,813 | \$ 62,425 |
| Due to Trust Fund | 889,929 | -- | -- | -- | -- | -- | -- |
| Unredeemed canteen cards | -- | 1,251 | 8,917 | 2,157 | 11,112 | 3,240 | 9,220 |
| Uncleared collections | <u>--</u> | <u>54</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total Liabilities | <u>952,076</u> | <u>28,924</u> | <u>42,576</u> | <u>40,849</u> | <u>73,394</u> | <u>33,053</u> | <u>71,645</u> |
| Fund Equity: | | | | | | | |
| Investments in fixed assets | 2,168 | 36,726 | 77,118 | 35,197 | 57,971 | 36,939 | 87,268 |
| Operating clearing ^{1/} | (182,264) | 14,844 | 42,650 | (5,208) | 32,544 | 3,185 | (6,625) |
| Undesignated - Central Office | <u>939,958</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total Fund Equity | <u>759,862</u> | <u>51,570</u> | <u>119,768</u> | <u>29,989</u> | <u>90,515</u> | <u>40,124</u> | <u>80,643</u> |
| Total Liabilities and Fund Equity | <u>\$1,711,938</u> | <u>\$80,494</u> | <u>\$162,344</u> | <u>\$70,838</u> | <u>\$163,909</u> | <u>\$73,177</u> | <u>\$152,288</u> |

^{1/} Operating Clearing - Operating clearing for the central office and each major correctional center represents the sum of (1) the income over (under) expenses as shown on the Comparative Statement of Operations and Schedule 3 and (2) net of transactions recorded by the central office or correctional centers but not recorded by the State Controller.

| <u>California Institution for Men</u> | <u>California Medical Facility</u> | <u>California Mens' Colony</u> | <u>California State Prison at San Quentin</u> | <u>California Institution for Women</u> | <u>California Rehabilitation Center</u> | <u>Total</u> |
|---|--|--|---|---|---|--------------------|
| \$ 17,153 | \$ 4,294 | \$ 29,638 | \$ 51,030 | \$15,496 | \$ 28,034 | \$ 517,761 |
| 12,040 | 17,769 | 11,740 | 7,996 | 1,554 | 1,911 | 119,834 |
| 23,591 | 30,946 | 46,168 | 55,380 | 17,466 | 17,302 | 417,118 |
| -- | -- | -- | -- | -- | -- | 1,416,396 |
| <u>82,124</u> | <u>75,409</u> | <u>106,280</u> | <u>80,192</u> | <u>10,252</u> | <u>64,232</u> | <u>751,876</u> |
| <u>\$134,908</u> | <u>\$128,418</u> | <u>\$193,826</u> | <u>\$194,598</u> | <u>\$44,768</u> | <u>\$111,479</u> | <u>\$3,222,985</u> |
| | | | | | | |
| \$ 35,053 | \$ 65,834 | \$ 49,292 | \$101,376 | \$34,634 | \$ 45,095 | \$ 647,921 |
| -- | -- | -- | -- | -- | -- | 889,929 |
| 5,814 | 10,490 | 11,747 | 21,518 | 2,421 | 9,119 | 97,006 |
| -- | -- | -- | -- | -- | -- | 54 |
| <u>40,867</u> | <u>76,324</u> | <u>61,039</u> | <u>122,894</u> | <u>37,055</u> | <u>54,214</u> | <u>1,634,910</u> |
| | | | | | | |
| 82,124 | 75,409 | 106,280 | 80,192 | 10,252 | 64,232 | 751,876 |
| 11,917 | (23,315) | 26,507 | (8,488) | (2,539) | (6,967) | (103,759) |
| -- | -- | -- | -- | -- | -- | 939,958 |
| <u>94,041</u> | <u>52,094</u> | <u>132,787</u> | <u>71,704</u> | <u>7,713</u> | <u>57,265</u> | <u>1,588,075</u> |
| <u>\$134,908</u> | <u>\$128,418</u> | <u>\$193,826</u> | <u>\$194,598</u> | <u>\$44,768</u> | <u>\$111,479</u> | <u>\$3,222,985</u> |

SCHEDULE 2

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND
BALANCE SHEETS OF THE CENTRAL OFFICE
AND TWELVE MAJOR CORRECTIONAL CENTERS

JUNE 30, 1977

| | Central Office | California Correctional Center at Susanville | Sierra Conservation Center | California Correctional Institution at Tehachapi | Correctional Training Facility | Deuel Vocational Institution | California State Prison at Folsom |
|--------------------------------------|--------------------|---|----------------------------------|---|--------------------------------------|------------------------------------|---|
| <u>ASSETS</u> | | | | | | | |
| Cash | \$ 362,848 | \$11,164 | \$ 31,990 | \$ 27,047 | \$ -- | \$ 7,324 | \$ -- |
| Accounts receivable | 13,131 | 2,499 | 12,178 | 16,141 | 18,543 | 2,537 | 13,502 |
| Canteen merchandise for resale | -- | 14,450 | 41,398 | 24,323 | 82,359 | 22,733 | 41,794 |
| Investment in securities | 1,530,328 | -- | -- | -- | -- | -- | -- |
| Equipment | 2,168 | 36,726 | 71,855 | 35,197 | 57,971 | 34,186 | 80,919 |
| Total Assets | <u>\$1,908,475</u> | <u>\$64,839</u> | <u>\$157,421</u> | <u>\$102,708</u> | <u>\$158,873</u> | <u>\$66,780</u> | <u>\$136,215</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 95,064 | \$15,975 | \$ 26,104 | \$ 28,358 | \$ 62,720 | \$15,776 | \$ 65,670 |
| Due to Trust Fund | 1,063,929 | -- | -- | -- | -- | -- | -- |
| Unredeemed canteen cards | -- | 1,355 | 6,936 | 2,490 | 6,323 | 7,544 | 12,804 |
| Uncleared collections | -- | 31 | -- | -- | -- | -- | -- |
| Total Liabilities | <u>1,158,993</u> | <u>17,361</u> | <u>33,040</u> | <u>30,848</u> | <u>69,043</u> | <u>23,320</u> | <u>78,474</u> |
| Fund Equity: | | | | | | | |
| Investments in fixed assets | 2,168 | 36,726 | 71,855 | 35,197 | 57,971 | 34,186 | 80,919 |
| Operating clearing ^{1/} | (184,006) | 10,752 | 52,526 | 36,663 | 31,859 | 9,274 | (23,178) |
| Undesignated - Central Office | 931,320 | -- | -- | -- | -- | -- | -- |
| Total Fund Equity | <u>749,482</u> | <u>47,478</u> | <u>124,381</u> | <u>71,860</u> | <u>89,830</u> | <u>43,460</u> | <u>57,741</u> |
| Total Liabilities and Fund Equity | <u>\$1,908,475</u> | <u>\$64,839</u> | <u>\$157,421</u> | <u>\$102,708</u> | <u>\$158,873</u> | <u>\$66,780</u> | <u>\$136,215</u> |

^{1/} Operating Clearing - Operating clearing for the central office and each major correctional center represents the sum of (1) the income over (under) expenses as shown on the Comparative Statement of Operations and Schedule 3. and (2) net of transactions recorded by the central office or correctional centers but not recorded by the State Controller.

| <u>California Institution for Men</u> | <u>California Medical Facility</u> | <u>California Mens' Colony</u> | <u>California State Prison at San Quentin</u> | <u>California Institution for Women</u> | <u>California Rehabilitation Center</u> | <u>Total</u> |
|---|--|--|---|---|---|--------------------|
| \$ 47,366 | \$ 4,504 | \$ 30,681 | \$ 54,875 | \$23,651 | \$ 28,565 | \$ 630,015 |
| 13,468 | 26,236 | 15,945 | 3,062 | 1,736 | 2,134 | 141,112 |
| 42,832 | 36,944 | 56,454 | 40,074 | 16,005 | 40,126 | 459,492 |
| -- | -- | -- | -- | -- | -- | 1,530,328 |
| <u>79,062</u> | <u>75,240</u> | <u>108,661</u> | <u>81,769</u> | <u>10,104</u> | <u>63,696</u> | <u>737,554</u> |
| <u>\$182,728</u> | <u>\$142,924</u> | <u>\$211,741</u> | <u>\$179,780</u> | <u>\$51,496</u> | <u>\$134,521</u> | <u>\$3,498,501</u> |
| | | | | | | |
| \$ 48,757 | \$ 52,002 | \$ 71,212 | \$ 71,000 | \$27,045 | \$ 61,328 | \$ 641,011 |
| -- | -- | -- | -- | -- | -- | 1,063,929 |
| 8,375 | 9,317 | 12,846 | 23,759 | 9,032 | 15,237 | 116,018 |
| -- | -- | -- | -- | -- | -- | 31 |
| <u>57,132</u> | <u>61,319</u> | <u>84,058</u> | <u>94,759</u> | <u>36,077</u> | <u>76,565</u> | <u>1,820,989</u> |
| | | | | | | |
| 79,062 | 75,240 | 108,661 | 81,769 | 10,104 | 63,696 | 737,554 |
| 46,534 | 6,365 | 19,022 | 3,252 | 5,315 | (5,740) | 8,638 |
| -- | -- | -- | -- | -- | -- | 931,320 |
| <u>125,596</u> | <u>81,605</u> | <u>127,683</u> | <u>85,021</u> | <u>15,419</u> | <u>57,956</u> | <u>1,677,512</u> |
| <u>\$182,728</u> | <u>\$142,924</u> | <u>\$211,741</u> | <u>\$179,780</u> | <u>\$51,496</u> | <u>\$134,521</u> | <u>\$3,498,501</u> |

SCHEDULE 3

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND
SCHEDULE OF OPERATIONS OF THE CENTRAL OFFICE
AND TWELVE MAJOR CORRECTIONAL CENTERS
FOR THE FISCAL YEAR ENDED JUNE 30, 1978

| | Central Office | California Correctional Center at Susanville | Sierra Conservation Center | California Correctional Institution at Tehachapi | Correctional Training Facility | Deuel Vocational Institution |
|---|--------------------|---|----------------------------------|---|--------------------------------------|------------------------------------|
| Operations: | | | | | | |
| Canteen Sales | \$ -- | \$222,462 | \$387,228 | \$299,525 | \$653,143 | \$278,341 |
| Less: Cost of sales | -- | <u>178,462</u> | <u>317,842</u> | <u>235,084</u> | <u>545,084</u> | <u>224,561</u> |
| Gross Profit on Canteen Sales | -- | <u>44,000</u> | <u>69,386</u> | <u>64,441</u> | <u>108,059</u> | <u>53,780</u> |
| Canteen Operating Expenses: | | | | | | |
| Personal services | -- | 34,416 | 55,281 | 36,501 | 70,223 | 36,011 |
| Other operating expenses | -- | 3,236 | 3,533 | 4,080 | 14,264 | 3,393 |
| Adjustment to canteen merchandise | -- | 1,583 | 1,649 | 2,153 | 12,575 | 2,172 |
| Inmate pay | -- | <u>2,474</u> | <u>1,309</u> | <u>2,425</u> | <u>6,323</u> | <u>2,233</u> |
| Total Canteen Operating Expenses | -- | <u>41,709</u> | <u>61,772</u> | <u>45,159</u> | <u>103,385</u> | <u>43,809</u> |
| Income (Loss) from Canteen Operations | -- | <u>2,291</u> | <u>7,614</u> | <u>19,282</u> | <u>4,674</u> | <u>9,971</u> |
| Other Income (Loss): | | | | | | |
| Handicraft operations | -- | 953 | 2,863 | 117 | 2,708 | (139) |
| Photo project operations | -- | -- | -- | 10,365 | 3,328 | 11,057 |
| Banquet operations | -- | (1,843) | 477 | 581 | 55 | -- |
| Interest on trust investments | 36,753 | 1,948 | 6,821 | 2,209 | 5,065 | 2,275 |
| Inmate services to others | -- | -- | -- | -- | -- | -- |
| Miscellaneous | -- | <u>6,381</u> | <u>29</u> | <u>607</u> | <u>10,416</u> | <u>8,405</u> |
| Total Other Income | <u>36,753</u> | <u>7,439</u> | <u>10,190</u> | <u>13,879</u> | <u>21,572</u> | <u>21,598</u> |
| Other Expenses: | | | | | | |
| Administration expenses | 53,724 | 3,249 | 3,616 | 4,971 | 11,344 | 19,924 |
| Prior-year expenditures (income) adjustments | <u>3,416</u> | <u>(331)</u> | <u>(2,459)</u> | <u>751</u> | <u>1,290</u> | <u>(191)</u> |
| Total Other Expenses | <u>57,140</u> | <u>2,918</u> | <u>1,157</u> | <u>5,722</u> | <u>12,634</u> | <u>19,733</u> |
| Income (Loss) from Operations | <u>(20,387)</u> | <u>6,812</u> | <u>16,647</u> | <u>27,439</u> | <u>13,612</u> | <u>11,836</u> |
| Inmate Benefit Expenses: | | | | | | |
| General entertainment | -- | 3,589 | 4,448 | 1,585 | 3,180 | 2,674 |
| Motion pictures | -- | 4,536 | 4,553 | 11,906 | 9,306 | 9,710 |
| Inmate newspapers | -- | -- | 139 | 277 | 1,425 | -- |
| Libraries | -- | 832 | 1,231 | 2,122 | 583 | -- |
| Inmate pay | -- | <u>169</u> | <u>575</u> | <u>2,250</u> | <u>447</u> | <u>--</u> |
| Total Inmate Benefit Expenses | -- | <u>9,126</u> | <u>10,946</u> | <u>18,140</u> | <u>14,941</u> | <u>12,384</u> |
| Income over (under) Expenses | <u>\$ (20,387)</u> | <u>\$ (2,314)</u> | <u>\$ 5,701</u> | <u>\$ 9,299</u> | <u>\$ (1,329)</u> | <u>\$ (548)</u> |

| California State Prison at Folsom | California Institution for Men | California Medical Facility | California Mens' Colony | California State Prison at San Quentin | California Institution for Women | California Rehabilitation Center | Total |
|---|--------------------------------------|-----------------------------------|-------------------------------|--|--|--|---------------------|
| \$419,400 | \$452,224 | \$496,455 | \$743,422 | \$505,781 | \$260,714 | \$474,139 | \$5,192,834 |
| <u>372,035</u> | <u>367,592</u> | <u>407,070</u> | <u>632,901</u> | <u>429,037</u> | <u>215,419</u> | <u>373,005</u> | <u>4,298,092</u> |
| <u>47,365</u> | <u>84,632</u> | <u>89,385</u> | <u>110,521</u> | <u>76,744</u> | <u>45,295</u> | <u>101,134</u> | <u>894,742</u> |
| 47,790 | 73,296 | 58,075 | 76,153 | 65,215 | 28,372 | 59,683 | 641,016 |
| 9,837 | 7,948 | 7,710 | 8,371 | 5,248 | 2,088 | 6,457 | 76,165 |
| 2,075 | 2,080 | 3,022 | 1,501 | 5,243 | 365 | 1,229 | 35,647 |
| <u>1,458</u> | <u>3,359</u> | <u>2,373</u> | <u>3,721</u> | <u>2,446</u> | <u>634</u> | <u>2,459</u> | <u>31,214</u> |
| <u>61,160</u> | <u>86,683</u> | <u>71,180</u> | <u>89,746</u> | <u>78,152</u> | <u>31,459</u> | <u>69,828</u> | <u>784,042</u> |
| <u>(13,795)</u> | <u>(2,051)</u> | <u>18,205</u> | <u>20,775</u> | <u>(1,408)</u> | <u>13,836</u> | <u>31,306</u> | <u>110,700</u> |
| (10,291) | 377 | 1,177 | (16,833) | (1,046) | (103) | -- | (20,217) |
| 1,549 | 12,058 | 3,551 | 11,311 | 4,277 | 2,274 | 8,748 | 68,518 |
| -- | 30 | 373 | -- | 1,095 | -- | -- | 768 |
| 8,203 | 6,494 | 7,635 | 11,740 | 6,292 | 1,554 | 1,911 | 98,900 |
| -- | -- | 13,523 | -- | -- | -- | -- | 13,523 |
| <u>23,605</u> | <u>6,108</u> | <u>5,978</u> | <u>8,031</u> | <u>10,024</u> | <u>850</u> | <u>(658)</u> | <u>79,776</u> |
| <u>23,066</u> | <u>25,067</u> | <u>32,237</u> | <u>14,249</u> | <u>20,642</u> | <u>4,575</u> | <u>10,001</u> | <u>241,268</u> |
| 30,657 | 18,249 | 30,288 | 17,688 | 18,836 | 6,474 | 16,878 | 235,898 |
| <u>1,330</u> | <u>(6,650)</u> | <u>5,375</u> | <u>(297)</u> | <u>542</u> | <u>370</u> | <u>(810)</u> | <u>2,336</u> |
| <u>31,987</u> | <u>11,599</u> | <u>35,663</u> | <u>17,391</u> | <u>19,378</u> | <u>6,844</u> | <u>16,068</u> | <u>238,234</u> |
| <u>(22,716)</u> | <u>11,417</u> | <u>14,779</u> | <u>17,633</u> | <u>(144)</u> | <u>11,567</u> | <u>25,239</u> | <u>113,734</u> |
| 3,156 | 7,156 | 2,777 | 2,670 | 3,291 | 2,238 | 6,010 | 42,774 |
| 9,549 | 8,204 | 20,333 | 9,618 | 12,301 | 6,068 | 9,316 | 115,400 |
| 674 | 31 | 1,070 | 3,987 | 5,805 | -- | -- | 13,408 |
| 5,685 | 1,935 | 6,839 | 6,133 | 2,234 | -- | 722 | 28,316 |
| <u>826</u> | <u>669</u> | <u>4,889</u> | <u>2,554</u> | <u>3,394</u> | <u>272</u> | <u>1,550</u> | <u>17,595</u> |
| <u>19,890</u> | <u>17,995</u> | <u>35,908</u> | <u>24,962</u> | <u>27,025</u> | <u>8,578</u> | <u>17,598</u> | <u>217,493</u> |
| <u>\$(42,606)</u> | <u>\$ (6,578)</u> | <u>\$(21,129)</u> | <u>\$(7,329)</u> | <u>\$(27,169)</u> | <u>\$ 2,989</u> | <u>\$ 7,641</u> | <u>\$ (103,759)</u> |

SCHEDULE 4

DEPARTMENT OF CORRECTIONS
INMATE WELFARE FUND

SCHEDULE OF OPERATIONS OF THE CENTRAL OFFICE
AND TWELVE MAJOR CORRECTIONAL CENTERS

FOR THE FISCAL YEAR ENDED JUNE 30, 1977

| | Central Office | California Correctional Center at Susanville | Sierra Conservation Center | California Correctional Institution at Tehachapi | Correctional Training Facility | Deuel Vocational Institution |
|---|--------------------|---|----------------------------------|---|--------------------------------------|------------------------------------|
| Operations: | | | | | | |
| Canteen Sales | \$ -- | \$228,726 | \$354,745 | \$277,426 | \$589,730 | \$276,110 |
| Less: Cost of sales | -- | <u>182,624</u> | <u>289,600</u> | <u>216,162</u> | <u>492,324</u> | <u>221,970</u> |
| Gross Profit on Canteen Sales | -- | <u>46,102</u> | <u>65,145</u> | <u>61,264</u> | <u>97,406</u> | <u>54,140</u> |
| Canteen Operating Expenses: | | | | | | |
| Personal services | -- | 33,135 | 50,200 | 34,534 | 71,732 | 33,689 |
| Other operating expenses | -- | 3,822 | 9,173 | 9,402 | 10,426 | 5,132 |
| Adjustment to canteen merchandise | -- | 962 | 1,996 | 6,022 | 4,221 | 959 |
| Inmate pay | -- | <u>2,266</u> | <u>858</u> | <u>1,194</u> | <u>4,998</u> | <u>2,339</u> |
| Total Canteen Operating Expenses | -- | <u>40,185</u> | <u>62,227</u> | <u>51,152</u> | <u>91,377</u> | <u>42,119</u> |
| Income (Loss) from Canteen Operations | -- | <u>5,917</u> | <u>2,918</u> | <u>10,112</u> | <u>6,029</u> | <u>12,021</u> |
| Other Income (Loss): | | | | | | |
| Handicraft operations | -- | 594 | 3,398 | (264) | (1,223) | 1,468 |
| Photo project operations | -- | -- | -- | 9,501 | 8,563 | 10,050 |
| Banquet operations | -- | (171) | 210 | 213 | (38) | -- |
| Interest on trust investments | 32,464 | 2,356 | 7,611 | 2,467 | 5,653 | 2,537 |
| Inmate services to others | -- | -- | -- | -- | -- | -- |
| Miscellaneous | -- | <u>6,792</u> | <u>305</u> | <u>(1,301)</u> | <u>7,958</u> | <u>8,864</u> |
| Total Other Income | <u>32,464</u> | <u>9,571</u> | <u>11,524</u> | <u>10,616</u> | <u>20,913</u> | <u>22,919</u> |
| Other Expenses: | | | | | | |
| Administration expenses | 45,152 | 2,128 | 2,087 | 4,619 | 8,321 | 16,950 |
| Prior-year expenditures (income) adjustments | <u>909</u> | <u>422</u> | <u>23</u> | <u>2,033</u> | <u>1,070</u> | <u>946</u> |
| Total Other Expenses | <u>46,061</u> | <u>2,550</u> | <u>2,110</u> | <u>6,652</u> | <u>9,391</u> | <u>17,896</u> |
| Income (Loss) from Operations | <u>(13,597)</u> | <u>12,938</u> | <u>12,332</u> | <u>14,076</u> | <u>17,551</u> | <u>17,044</u> |
| Inmate Benefit Expenses: | | | | | | |
| General entertainment | -- | 1,719 | 2,997 | 1,511 | 3,728 | 2,701 |
| Motion pictures | -- | 4,586 | 4,728 | 10,098 | 10,823 | 7,541 |
| Inmate newspapers | -- | 73 | 195 | 795 | 1,794 | -- |
| Libraries | -- | 74 | 1,294 | 954 | 628 | 426 |
| Inmate pay | -- | 119 | 483 | 3,142 | 459 | -- |
| Equipment | -- | -- | -- | -- | -- | -- |
| Postage | -- | -- | -- | -- | -- | -- |
| Family visiting | -- | -- | -- | -- | -- | -- |
| Total Inmate Benefit Expenses | -- | <u>6,571</u> | <u>9,697</u> | <u>16,500</u> | <u>17,432</u> | <u>10,668</u> |
| Income over (under) Expenses | <u>\$ (13,597)</u> | <u>\$ 6,367</u> | <u>\$ 2,635</u> | <u>\$ (2,424)</u> | <u>\$ 119</u> | <u>\$ 6,376</u> |

| California State Prison at Folsom | California Institution for Men | California Medical Facility | California Mens' Colony | California State Prison at San Quentin | California Institution for Women | California Rehabilitation Center | Total |
|---|--------------------------------------|-----------------------------------|-------------------------------|--|--|--|------------------|
| \$440,067 | \$527,321 | \$497,983 | \$742,449 | \$552,755 | \$226,964 | \$533,355 | \$5,247,631 |
| <u>372,048</u> | <u>430,576</u> | <u>406,854</u> | <u>632,524</u> | <u>446,453</u> | <u>183,512</u> | <u>438,186</u> | <u>4,312,833</u> |
| <u>68,019</u> | <u>96,745</u> | <u>91,129</u> | <u>109,925</u> | <u>106,302</u> | <u>43,452</u> | <u>95,169</u> | <u>934,798</u> |
| 38,513 | 67,375 | 42,431 | 67,810 | 59,686 | 21,865 | 66,418 | 587,388 |
| 5,643 | 8,496 | 13,526 | 17,533 | 8,649 | 482 | 6,418 | 98,702 |
| 199 | 1,542 | 1,686 | 4,687 | 4,204 | 813 | 788 | 28,079 |
| <u>1,405</u> | <u>3,303</u> | <u>2,037</u> | <u>2,667</u> | <u>3,521</u> | <u>756</u> | <u>2,362</u> | <u>27,706</u> |
| <u>45,760</u> | <u>80,716</u> | <u>59,680</u> | <u>92,697</u> | <u>76,060</u> | <u>23,916</u> | <u>75,986</u> | <u>741,875</u> |
| <u>22,259</u> | <u>16,029</u> | <u>31,449</u> | <u>17,228</u> | <u>30,242</u> | <u>19,536</u> | <u>19,183</u> | <u>192,923</u> |
| 678 | 556 | 804 | (17,528) | 1,102 | 33 | 68 | (10,314) |
| 272 | 4,827 | 5,540 | 10,341 | 8,136 | 1,288 | 5,243 | 63,761 |
| -- | 330 | (1,027) | -- | (3,645) | -- | -- | (4,128) |
| 13,502 | 7,247 | 9,422 | 15,945 | 7,779 | 1,736 | 2,134 | 110,853 |
| -- | -- | 15,311 | -- | -- | -- | -- | 15,311 |
| <u>18,347</u> | <u>7,859</u> | <u>11,235</u> | <u>10,650</u> | <u>12,202</u> | <u>1,059</u> | <u>1,495</u> | <u>85,465</u> |
| <u>32,799</u> | <u>20,819</u> | <u>41,285</u> | <u>19,408</u> | <u>25,574</u> | <u>4,116</u> | <u>8,940</u> | <u>260,948</u> |
| 21,016 | 20,133 | 26,121 | 9,416 | 16,320 | 5,000 | 11,186 | 188,449 |
| <u>1,073</u> | <u>1,521</u> | <u>5,195</u> | <u>1,800</u> | <u>1,575</u> | <u>787</u> | <u>1,444</u> | <u>18,798</u> |
| <u>22,089</u> | <u>21,654</u> | <u>31,316</u> | <u>11,216</u> | <u>17,895</u> | <u>5,787</u> | <u>12,630</u> | <u>207,247</u> |
| <u>32,969</u> | <u>15,194</u> | <u>41,418</u> | <u>25,420</u> | <u>37,921</u> | <u>17,865</u> | <u>15,493</u> | <u>246,624</u> |
| 2,592 | 11,317 | 2,500 | 9,268 | 4,555 | 2,490 | 10,563 | 55,941 |
| 5,998 | 10,743 | 19,099 | 7,735 | 10,415 | 4,121 | 8,829 | 104,716 |
| 600 | 1,430 | 896 | 7,225 | 1,410 | 107 | -- | 14,525 |
| 3,663 | 1,470 | 6,886 | 5,568 | 2,677 | 72 | 1,312 | 25,024 |
| 4,113 | 538 | 4,390 | 2,878 | 4,041 | 588 | 2,789 | 23,540 |
| -- | -- | 1,946 | 8,283 | -- | -- | -- | 10,229 |
| 3,000 | -- | -- | -- | -- | -- | -- | 3,000 |
| <u>1,011</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>1,011</u> |
| <u>20,977</u> | <u>25,498</u> | <u>35,717</u> | <u>40,957</u> | <u>23,098</u> | <u>7,378</u> | <u>23,493</u> | <u>237,986</u> |
| <u>\$ 11,992</u> | <u>\$(10,304)</u> | <u>\$ 5,701</u> | <u>\$(15,537)</u> | <u>\$ 14,823</u> | <u>\$ 10,487</u> | <u>\$(8,000)</u> | <u>\$ 8,638</u> |

OTHER COMMENTS

As an integral part of our examination, we reviewed the department's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the department's financial statements for the Inmate Welfare Fund present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. Management letters describing the suggested operating improvements have been issued to the department.

The department concurs with the suggested operations and improvements. The management letters and the department's responses are included in the following appendices.

CHAIRMAN
RICHARD ROBINSON
ASSEMBLYMAN

VICE CHAIRMAN
ALBERT RODDA
SENATOR



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

Office of the Auditor General

925 L STREET
SUITE 750
SACRAMENTO 95814
(916) 445-0255

August 20, 1979

Management Letter #131

Mr. J. J. Enomoto, Director
Department of Corrections
714 P Street
Sacramento, California 95814

Re: Inmate Welfare Fund

Dear Mr. Enomoto:

As a recipient of revenue sharing funds, the State of California is required to have an independent audit of its financial statements at least once during a period not to exceed three fiscal years. The Revenue Sharing Act and the Public Works Employment Act of 1976 require the audit to be performed in accordance with generally accepted auditing standards as defined by the American Institute of Certified Public Accountants in its Statements on Auditing Standards or those in the financial and compliance element of the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued in 1972 by the Comptroller General of the United States. These standards require financial reporting in accordance with generally accepted accounting principles, which are described in the Appendix.

One of the basic principles of accounting applicable to governmental units is fund accounting. Each fund must be accounted for in a separate, self-balancing set of accounts for its assets, liabilities, equity, revenues, expenditures, or expenses (as appropriate) and transfers.

Enterprise funds are established to account for operations financed and operated in a manner similar to private business enterprises. Trust funds are established to account for assets held by a governmental unit in a trustee capacity for individuals, private organizations, other governmental units and/or other funds.

Mr. J. J. Enomoto, Director
Department of Corrections
August 15, 1979
Page 2

The Department of Corrections reports the financial statements of the Inmate Welfare Fund in accordance with the legal requirements of the Penal Code. The department is authorized under Penal Code Section 5005 to establish canteen operations at any prison or institution under its jurisdiction, with each canteen to be self-supporting, as far as possible. Penal Code Section 5006 creates the Inmate Welfare Fund as a trust fund in State Treasury and specifies that the fund include enterprise (canteen and hobby shop operations) as well as trust activity. Such a provision conflicts with the generally accepted accounting principle of fund accounting which requires that each fund type be accounted for in a separate, self-balancing set of accounts and be reported separately.

In financial reporting, when legal provisions and generally accepted accounting principles conflict, accounting principles should take precedence. Accordingly, the following restatement of the legal compliance accounting principles is appropriate:

A governmental accounting system should incorporate such accounting information in its records as necessary to make it possible to both (a) show compliance with all applicable legal provisions and (b) present fairly the financial position and results of operations of the respective funds and financial position of the self-balancing account groups of the governmental unit in conformity with generally accepted accounting principles.

Recommendation

We recommend that the Director of the Department of Corrections take these actions:

1. Develop financial reporting procedures by identifying the components of the enterprise operations and the fiduciary responsibilities under the trust activities. These procedures should include sufficient accounting records to permit reporting by fund under generally accepted accounting principles.

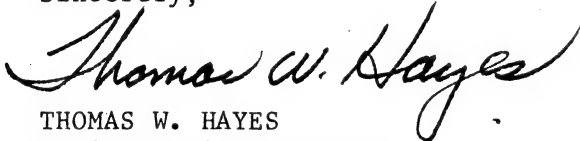
Mr. J. J. Enomoto, Director
Department of Corrections
August 15, 1979
Page 3

2. Prepare separate sets of financial statements for the enterprise operations and trust activities of the Inmate Welfare Fund to comply with the generally accepted accounting principle of fund accounting. The department should also continue to prepare financial statements to comply with the legal requirements of the Penal Code.

State agencies have ten working days to respond in writing to management letters of the Auditor General. We would appreciate receiving your written response to this management letter by August 31, 1979.

If you have any questions concerning the contents of this letter, please contact Mr. Fredrick Lewis, Audit Supervisor (445-0255).

Sincerely,



THOMAS W. HAYES
Acting Auditor General

Staff: Richard I. LaRock
Fredrick Lewis
James Rostron
Michael Edmonds

TWH:FL:bs

APPENDIX

Generally accepted accounting principles (GAAP) - Those pronouncements of the National Committee on Governmental Accounting as set forth in its 1968 publication, Governmental Accounting, Auditing, and Financial Reporting (GAAFR). Below is GAAFR's description of these principles:

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments--regardless of jurisdictional legal provisions and customs--contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria.

Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state, provincial, and local governmental units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP.

State of California

M e m o r a n d u m

Date : August 28, 1979

To : Mr. Thomas W. Hayes
Acting Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

From : Department of Corrections, Sacramento 95814

Subject: Response to Management Letter No. 131

The Department of Corrections has received Management Letter No. 131, dated August 20, 1979, and offers the following response to your two (2) recommendations concerning financial reporting of the Inmate Welfare Fund.

Recommendation No. 1

Develop financial reporting procedures by identifying the components of the enterprise operations and the fiduciary responsibilities under the trust activities. These procedures should include sufficient accounting records to permit reporting by fund under generally accepted accounting principles.

Recommendation No. 2

Prepare separate sets of financial statements for the enterprise operations and trust activities of the Inmate Welfare Fund to comply with the generally accepted accounting principle of fund accounting. The department should also continue to prepare financial statements to comply with the legal requirements of the Penal Code.

The Department of Corrections is satisfied with the present financial reporting system for Inmate Welfare Fund and would not have otherwise initiated the procedures you recommend. Nevertheless, we are agreeable to these recommendations contingent upon several factors.

1) The extent of revision to our present reporting system to comply with these requirements is not fully known. It is conceivable that the Inmate Welfare Fund would be required to contract with an outside consultant to define and develop such procedures. The use of an outside consultant may be too expensive if the Inmate Welfare Fund had to absorb the cost. 2) For the first time since its inception, the Inmate Welfare Fund has been included in the Budget Act as an unappropriated item. We are one of only a few of the many non-governmental cost funds to be included. The impact of this is not completely known but we are assuming that we will be

Mr. Thomas W. Hayes

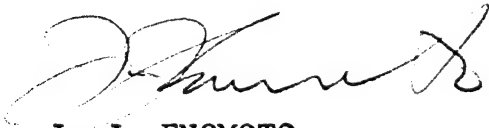
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August 28, 1979

subject to the same fiscal controls as any other item in the Budget Act. Until the impact is known, we feel that it would be premature to revise our accounting system. 3) Currently, control agencies, including the Department of Finance, the Controller's Office, and the Treasurer's Office, have approved our present financial reporting system. It seems to us that any revision would require their concurrence and approval. 4) The Department of Corrections is anticipating at least partial implementation of the Computerized Inmate Trust/Canteen System in fiscal year 1979-80. This new system will have an impact on trust fund accounting, but the full extent of that impact is not known. Until the Computerized Inmate Trust/Canteen System is operational we are reluctant to revise the accounting system.

In summary, the Department of Corrections is agreeable to the concept of your recommendations. However, it cannot be determined at this time when compliance can be achieved due to the various factors mentioned.

If you should have any questions concerning our response, please contact Mr. Ken Burns, Inmate Welfare Fund Manager at 445-8392.



J. J. ENOMOTO
Director of Corrections

cc: Ken G. Burns, Jr.
Inmate Welfare Fund Manager



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

925 L STREET
SUITE 750
SACRAMENTO 95814
(916) 445-0255

Office of the Auditor General

October 9, 1979

Management Letter 131-1

Mr. J. J. Enomoto
Director of Corrections
714 P Street
Sacramento, California 95814

Re: Inmate Welfare Fund

Dear Mr. Enomoto:

The audit report on examination of the financial statements of the Inmate Welfare Fund of the Department of Corrections for the periods ended June 30, 1977 and 1978 will contain an adverse opinion. That is, in our opinion, the financial statements do not present fairly the financial position of the Inmate Welfare Fund as of June 30, 1977 and 1978 and the results of operations and changes in fund balance for the years then ended in conformity with generally accepted accounting principles as defined by the American Institute of Certified Public Accountants and the National Council of Governmental Accounting. We have previously reported this matter to you in a separate letter dated August 20, 1979.

As an integral part of our examination, we also reviewed accounting procedures of the Inmate Welfare Fund and related systems of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the financial statements present financial position, results of operations, and changes in fund balance in accordance with generally accepted accounting principles. The review of accounting procedures and related system of internal accounting controls enables us to suggest improvements which may result in better operating procedures or in better internal accounting controls. The following comments and recommendations apply to specific correctional centers which are identified herein.

Mr. J. J. Enomoto
Director of Corrections
October 9, 1979
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PROPERTY ACCOUNTING CONTROLS

A physical inventory of Inmate Welfare Fund equipment has not been taken and reconciled to the general ledger within the last three years at these correctional centers:

California Medical Facility
California State Prison at Folsom
California Correctional Center at Susanville.

RECOMMENDATION

We recommend that the Director of Corrections require these correctional centers to conduct a physical inventory of equipment and reconcile the results of the inventory to the general ledger.

In addition, a subsidiary equipment ledger is not being maintained on a current basis by these correctional centers:

California Correctional Center at Susanville
California Correctional Institution at Tehachapi
Correctional Training Facility
California State Prison at Folsom
California Medical Facility
California Institution for Women
California Rehabilitation Center.

RECOMMENDATION

We recommend that the Director of Corrections require each center to maintain a subsidiary equipment ledger on a current basis and to reconcile the subsidiary equipment ledger to the general ledger on a monthly basis.

Mr. J. J. Enomoto
Director of Corrections
October 9, 1979
Page 3

CONCESSIONS - INMATE VISITING AREA

The Inmate Welfare Fund Procedures Manual requires that 50 percent of the profits from concessions in the inmate visiting area be paid to the Inmate Welfare Fund. The following correctional centers did not receive payments from concessionaires:

California Correctional Institution at Tehachapi
California Institution for Men
California Medical Facility
California Institution for Women
California Rehabilitation Center.

The Director of Corrections is required under Penal Code Section 5057 to establish an accounting and auditing system for the department. The accounting and auditing system should include such accounts and records as are necessary to properly account for all money and property of the prisoners and the inmates.

The department has not required concessionaires to maintain their accounting records nor report in sufficient detail to enable the department to identify profit or loss of inmate visiting areas.

RECOMMENDATION

We recommend that the Director of Corrections require visiting area concessionaires to maintain their accounting records in sufficient detail and to submit detailed monthly reports so that profit or loss from visiting areas may be identified. Also, we recommend the Director provide that visiting area concessionaires are audited annually.

PAYMENT FOR CANTEEN MERCHANDISE

The California Correctional Institution at Tehachapi has approved payment for canteen merchandise when stock received reports evidence that merchandise has been only partially received.

Mr. J. J. Enomoto
Director of Corrections
October 9, 1979
Page 4

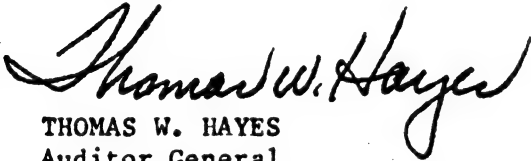
RECOMMENDATION

We recommend that the Business Manager at the California Correctional Institution at Tehachapi implement procedures (1) to record receipt of all merchandise on stock received reports, and (2) to authorize payment only when merchandise has been received.

State agencies have ten working days to respond in writing to management letters of the Auditor General. We would appreciate receiving your written response to this management letter by October 23, 1979.

If you have any questions concerning the contents of this letter, please contact Mr. Frederick Lewis, Audit Supervisor, at 445-0255.

Sincerely,


THOMAS W. HAYES
Auditor General

TWH:RIL:bg

Staff: Richard I. LaRock, CPA
Merrill Tompkins, CPA
Frederick Lewis
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James Rostron
Douglas Cordiner

Robert L. Hamric, CPA
George Fracchia
Earl Hickman
Daniel Sherwood
Michael Edmonds.

cc: Assemblyman Richard Robinson, Chairman
Joint Legislative Audit Committee

Mary Ann Graves, Director
Department of Finance

Memorandum

Date : November 15, 1979

To : Mr. Thomas W. Hayes
Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

From : Department of Corrections, Sacramento 95814

Subject: Response to Management Letter No. 131-1

In response to Management Letter 131-1, dated October 9, 1979, the Department of Corrections offers the following information. On October 16, 1979, I advised you that we would solicit the institutions affected by the management letter for their responses. We have received and consolidated their comments. Your recommendations and our responses are as follows:

PROPERTY ACCOUNTING CONTROLS RECOMMENDATIONS

We recommend that the Director of Corrections require these correctional centers (California Medical Facility, Folsom State Prison and California Correctional Center) to conduct a physical inventory of equipment and reconcile the results of this inventory to the general ledger.

We recommend that the Director of Corrections require each center (California Correctional Center, California Correctional Institution, Correctional Training Facility, Folsom State Prison, California Medical Facility, California Institution for Women and California Rehabilitation Center) to maintain a subsidiary equipment ledger on a current basis and to reconcile the subsidiary equipment ledger to the general ledger on a monthly basis.

RESPONSE

In 1967-68, the Department of Corrections' budget was reduced by eliminating our previously budgeted property clerk positions. These positions typically handled Inmate Welfare Fund property as well as General Fund property. We correctly predicted that the level of service in the area of property control and accounting would be significantly diminished. The institutions have attempted to absorb this workload, some better than others. Most of the institutions have indicated that they have or intend to comply with both these recommendations by the end of this fiscal year. While we certainly agree that it would be desirable for all institutions to comply, we cannot require compliance due to the shortage of staff.

INMATE VISITING AREA CONCESSION RECOMMENDATIONS

We recommend that the Director of Corrections require visiting area concessionaires (California Correctional Institution, California Institution for Men, California Medical Facility, California Institution for Women and California Rehabilitation Center) to maintain their accounting records in sufficient detail to submit detailed monthly reports so that profit or loss from visiting areas may be identified. Also, we recommend the Director provide that visiting area concessionaires are audited annually.

RESPONSE

The Department of Corrections concurs with both these recommendations. It is a part of our Business Administration Manual and departmental policy that employee associations operating visiting area concessions be audited annually.

RECOMMENDATION REGARDING PAYMENT FOR CANTEEN MERCHANDISE

We recommend that the Business Manager at the California Correctional Institution at Tehachapi implement procedures (1) to record receipt of all merchandise on stock received reports, and (2) to authorize payment only when merchandise has been received.

RESPONSE

The California Correctional Institution has complied with both these recommendations.

If you should have any questions concerning this matter, please contact Mr. Ken Burns, Inmate Welfare Fund Manager at 445-8392.



W. T. DEGUCHI
Deputy Director
Administration

cc: Assemblyman Richard Robinson, Chairman
Joint Legislative Audit Committee

Mary Ann Graves, Director
Department of Finance

Ken G. Burns, Jr.
Inmate Welfare Fund Manager

State of California

M e m o r a n d u m

Date : January 23, 1980

To : Mr. Thomas W. Hayes
Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

From : Department of Corrections, Sacramento 95814

Subject: Response to Draft of Financial Audit Report

In accordance with your January 7, 1980 correspondence, in which your office has transmitted a draft of your financial audit report of the Inmate Welfare Fund for the 1976-77 and 1977-78 fiscal years, the Department of Corrections wishes to respond prior to issuance of the final audit report. Generally, we do not disagree with the content of your audit report, but do wish to make certain facts a matter of record in the final audit report which have the effect of clarifying our responses to Management Letters No. 131 and 131-1.

In the draft report, under OTHER COMMENTS, you state that we concur with the suggested operations and improvements referred to in your Management Letters. While that is correct, we do wish to clarify our concurrence. In regard to the recommendation that the Inmate Welfare Fund develop and report our fund activities by enterprise operations and trust activities, we expressed our agreement contingent upon several factors. My August 28, 1979 correspondence refers to those specifics. These factors are significant and while we concur with your recommendation, these factors could conceivably prevent the department from ever implementing the suggestions. Further, until some of these issues are resolved we are not proceeding with any form of implementation.

In our November 15, 1979 response to Management Letter No. 131-1, the department expressed agreement with your recommendation relative to property control and accounting. While most institutions indicated that they have or would comply, we advised you that due to the shortage of staff to accomplish this function our headquarters could not require compliance with that recommendation. We wish to make this staffing situation a matter of record in the final audit report.

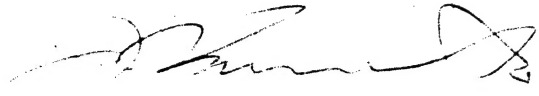
Please note that the Department of Corrections headquarters, including the Inmate Welfare Fund, has moved to 630 "K" Street. Our mailing address is P. O. Box 714, Sacramento, CA 95814.

Mr. Thomas W. Hayes

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January 23, 1980

We appreciate the opportunity to provide these responses to the draft financial audit report and to have them included in the final version. If you should have any questions concerning this matter, please contact Mr. Ken Burns, Inmate Welfare Fund Manager at 445-8392.



J. J. ENOMOTO
Director of Corrections

cc: Chair person
Joint Legislative Audit Committee

Mary Ann Graves, Director
Department of Finance

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps